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TAX·FEATURES

Top 10% of U.S. Earners Pay Half The Federal Income Tax Bill

The top-earning half of the population pays more than 90 percent of the Federal income tax bill, Tax Foundation analysis of data for tax year 1984, recently released by the Treasury Department, reveals. Earners in the top tenth pay over half of the bill.

These proportions were almost the same in 1984 as in 1979, and distribution of Federal income tax burdens among higher and lower income earners has been remarkably stable in recent years, despite major statutory changes affecting taxes at all income levels. There has been a tendency, however, for those at the upper end of the income scale to pay an increasing share of the individual income tax.

The top 5 percent of income earners in 1984 shouldered 38.2 percent of the tax bill in 1984, up from 37.6 percent in 1979. This upward shift of the tax burden occurred despite the reduction in the top marginal rate on all income from 70 percent to 50 percent in the interim.

Federal individual income taxes totaled $304 billion in 1984. Over $282 billion—92.9 percent—was paid by the top 50 percent of earners—represented by the 50 million returns with incomes of $15,837 or more. This group paid an average tax of $5,669. Five years earlier, the upper half paid 93.2 percent.

The 10 million taxpayers in the top ten percent grouping shouldered 51.0 percent of all U.S. personal income taxes in 1984—a shade more than their 49.5 percent share in 1979. In 1984, this group had adjusted gross incomes of $44,656 or more, with an average tax burden of $15,549.

The highest five percent of earners in 1984 had adjusted gross incomes averaging $59,460 or more and paid an average tax of $23,313, according to economists at the Tax Foundation.

Taxpayers in the lower half of the earning scale—those making $15,836 or less—paid only 7.1 percent of Federal income taxes in 1984, with an average tax of $434. Their share of the tax bill was up slightly from 6.8 percent in 1979.

For all filers, the average tax per return in 1984 was $3,052, an in-

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Federal Income Taxes Paid by High- and Low-Income Taxpayers
1979 and 1984[a]

Adjusted gross income class	Income level 1979	Income level 1984	Percent of tax paid 1979	Percent of tax paid 1984	Average tax 1979	Average tax 1984
Highest 5 percent	$39,901 or more	$59,460 or more	37.6	38.2	$17,407	$23,313
Highest 10 percent	32,711 or more	44,656 or more	49.5	51.0	11,456	15,549
Highest 25 percent	21,759 or more	29,316 or more	73.1	74.0	6,769	9,035
Highest 50 percent	11,870 or more	15,837 or more	93.2	92.9	4,315	5,669
Lowest 50 percent	11,869 or less	15,836 or less	6.8	7.1	313	434
Lowest 25 percent	5,565 or less	7,337 or less	.5	.8	46	92
Lowest 10 percent	2,212 or less	2,939 or less	(b)	.1	9	31

[a]Data for 1984 are preliminary.
[b]Less than .05 percent.
Source: Tax Foundation computations based on Treasury Department data.

Spending Doubles in 7 Years As Governments Shell Out $7,017 Per Person in FY86

Spending by Federal, state, and local governments has more than doubled since 1979, and will hit $1.69 trillion in the current fiscal year, according to Tax Foundation analysts.

Public spending in fiscal 1986 will reach $7,017 per person, up from $3,726 in 1979. Per household, that comes to $19,145 this year for each of the 88 million U.S. households, as compared to $10,764 seven years ago.

But the rate is slowing. Compared to an average annual growth in excess of 11 percent during the first half of the 1980s, spending this year is expected to rise by 6.0 percent, or $95.4 billion over the previous year—a modest increase by recent standards. Tax Foundation economists attribute the slowdown primarily to an estimated increase in Federal outlays of only 3.5 percent, the smallest annual rise in more than a decade. State and local expenditures will grow this year by about 10 percent, as compared to previous annual increases averaging nearly 13 percent since 1980.

The Federal government will spend $1.06 trillion in fiscal 1986, about 63 percent of the total for all governments. Over the past two decades the share of Federal spending in the rising total for governments has remained relatively stable, within a range of 61 to 65 percent. This has not always been the case, however. Tax Foundation researchers point out that Federal spending was less than 50 percent of all public

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The In's and Out's of Public Revenue

How It Comes In

Individual income taxes were the largest single revenue source for U.S. governments in fiscal year 1984 (latest reported), accounting for 27.6 cents of every dollar collected by Federal, state, and local jurisdictions, according to Tax Foundation researchers.

Nearly $361 billion of the $1.3 trillion governments raised in 1984 came from individual income taxes.

Social security payroll taxes were the second largest contributor to government coffers, bringing in $214 billion, or 16.3 cents per revenue dollar. Next came current charges, 10.2 cents; miscellaneous general revenue (e.g., interest earnings and sales of property), 8.2 cents; property taxes, 7.4 cents; selective sales and excise taxes, 6.8 cents; general sales taxes, 5.8 cents; corporate profits taxes, 5.7 cents; and miscellaneous taxes, 4.6 cents.

Despite the continued preeminence of individual income taxes in financing government—they have held the top spot since World War II—their share of total revenues dropped from 30.7 cents per dollar in 1980 to 27.6 cents in 1984. This trend reflects two major factors, according to Tax Foundation analysts. One is that other revenue sources, notably nontax revenues and social security levies, are rising more rapidly than personal income taxes. The other is the slowing in the rise of Federal income taxes as a result of the Economic Recovery Tax Act of 1981 (ERTA). (More than four-fifths of all personal income taxes are collected by Uncle Sam.)

Tax Foundation economists note several major changes since 1960 in the way governments raise their money.

The role of taxes has declined relative to nontax revenues. (See the accompanying table for breakdown of nontax revenues.) The share of taxes in the revenue dollar dropped from 82.7 cents in 1960 to 74.1 cents in 1984; mostly after 1970. In 1984, nontax revenues were nearly 13 times their size in 1960; taxes were not quite eight times their 1960 levels.

Social security taxes, the fastest growing revenue source, have more than doubled their share in the total revenue system, rising from 7.0 cents per revenue dollar in 1960 to 16.3 cents in 1984. In 1984, social security taxes were 20 times as large as in 1960.

Over the same period, corporate income taxes, selective sales taxes, and property taxes have played a declining role in the overall revenue structure.

Revenue figures do not reflect the large segment of Federal spending that is now financed by borrowed funds. In 1984, nearly 19 cents of every dollar of Federal spending was borrowed. This was partly offset by state-local surpluses, to bring net borrowing by all governments down to 8 cents per dollar of spending. (In 1960, a surplus in Federal accounts more than offset a smaller deficit in state-local accounts.)

Additional details appear below.

How It Goes Out

Social welfare programs consumed 32.9 cents of every government dollar spent in 1984 (latest reported). Nearly one-third of all 1984 public expenditures, some $470 billion out of total spending by all levels of government of $1,428 billion, went to support the social welfare network.

National defense and international relations was the second highest at 17.4 cents per dollar. Education expenditures ranked third, taking 13.2 cents per dollar; interest costs ranked fourth at 9.7 cents; and environment and housing followed at 5.8 cents.

Federal social security (OASDHI) led the field, claiming 16.4 cents of every dollar spent by all levels of government. Programs in this category also include social services and income maintenance (public welfare, health and hospitals, and unemployment insurance), which accounted for 11.8 cents per dollar of government spending. Other programs included are government employee retirement, railroad retirement, and veterans' programs not elsewhere classified—4.7 cents.

Even these large percentages for social welfare spending actually understate what could be considered the "true" social spending total, according to economists at the Tax Foundation. Broadly defined, social welfare might include public education (shown separately in the table on page 4), as well as subsidized housing and many veterans' services that are included in and not segregable from the totals of other spending categories.

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How Federal, State, and Local Governments Raise Each Dollar of Public Funds
Selected Fiscal Years 1960-1984

Source	Cents per dollar of total revenue			
	1960	1970	1980	1984
Tax Revenues	82.7	82.4	78.2	74.1
Individual income	28.2	30.3	30.7	27.6
Social Security (OASDHI)	7.0	11.5	15.0	16.3
Property	10.7	10.2	7.3	7.4
Selective sales and excises	12.5	9.8	6.5	6.8
Corporate income	14.8	11.0	8.4	5.7
General sales	3.5	4.8	5.5	5.8
Other taxes[a]	6.0	4.8	4.8	4.6
Nontax revenues	17.3	17.6	21.8	25.9
Current charges	8.1	7.9	8.6	10.2
Miscellaneous general revenue[b]	3.3	4.0	6.7	8.2
Employee retirement	1.9	2.5	3.1	3.9
Utilities and liquor stores	3.2	2.6	2.7	3.1
Other nontaxes	.8	.6	.7	.5
Exhibit (billions):				
Total revenues	$153.1	$333.8	$932.2	$1,307.5
Surplus (+) or deficit (−)	+$ 1.8	+$ .8	−$ 26.5	−$ 120.5

[a]Includes death and gift, motor vehicle and operators' license, unemployment compensation, and miscellaneous taxes.
[b]Includes interest earnings, special assessments, sale of property, and others.
Source: *Facts and Figures on Government Finance*, 1986, Tax Foundation; basic data from U.S. Department of Commerce, Bureau of the Census.

Tax Features

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Tax Foundation
One Thomas Circle, N.W., Suite 500
Washington, D.C. 20005
(202) 822-9050

TAX FOUNDATION
ONE THOMAS CIRCLE, N.W., SUITE 500

WASHINGTON, DC 20005
TELEPHONE (202) 822-9050

FEDERAL TAX POLICY MEMO

Editor: Edward A. Sprague, Senior Vice President—Program Planning and Tax Policy JUNE/JULY 1986

Tax Reform Accelerates in the Senate

The May resuscitation of tax reform in the Senate Finance Committee has been called Senator Packwood's "Inchon landing." It was indeed a brilliant maneuver, which captured the imagination of both participants and policywatchers. Lots of folks promptly lined up to support the measure, including a good number of former doubters. At this writing, the bill has sailed through the Senate almost wholly intact and awaits the climactic conference with the House.

Key to the success of the "landing" was a proposed dramatic lowering of top marginal rates: from 50 percent to 27 percent for individuals and from 46 percent to 33 percent for corporations. This made the House bill's comparable top rates, at 38 percent and 36 percent, respectively, look positively chintzy. To recapture revenue loss to rate reduction and to balance up the distribution of tax reductions on the individual side, the Finance Committee proposed four major changes: eliminating the long-term capital gains exclusion, disallowing tax shelter losses against other income, eliminating the consumer interest deduction entirely, and limiting IRA deductions to those without regular pension coverage. None of these would have been acceptable, probably, *without* the sharp rate cut. But when wrapped in with reform that editorial writers have been falling all over each other to endorse with high praise, these base-broadening provisions have drawn remarkably little opposition.

However, the promise of real *system* improvement is confined almost entirely to the individual sector. ***On the business side, the Senate bill would saddle corporations with many new tax planning complexities, including a mind-boggling alternative minimum tax. Then, there is the matter of the $100 billion or so in new tax burdens that would be imposed on the corporate sector to finance tax reductions for individuals—less of a shift than under the House bill, but hardly inconsequential.*** What would be the net effect of this burden shift and rate reduction is still anybody's guess. The econometric modelers have no better handle on it than they did a year and a half ago with Treasury I.

On the individual side, there are a lot of potential glitches which need to be ironed out and some real policy questions that should be addressed.

Individual Provisions

At first glance, the Senate's proposed individual rate structure looks like a model of simplicity with only two brackets and a generous standard deduction and personal exemption helping to lop a lot of low-income taxpayers off the rolls entirely. For joint returns, the top rate of 27 percent would kick in at $29,800 of taxable income, compared to House rates of 25 percent on taxable income of $22,500-$43,000; 35 percent on $43,000-$100,000; and 38 percent over $100,000. However, to hold down the lost revenue and size of tax cuts for upper-income groups, the Finance Committee proposed phasing out the benefits of its first 15 percent bracket rate between $75,000 and $145,000 for joint returns and at lower amounts for head-of-household and single returns. It also proposed phasing out the benefit of the entire personal exemption between $145,000 and $185,000 for joint returns and lower amounts for others.

The result would be notch problems for a lot of upper-middle-income taxpayers with the top marginal rate rising temporarily to over 32 percent, instead of the statutory 27 percent. (In isolated cases when the effect of phasing out the $25,000 exemption to the passive loss limitation on real estate shelters is reflected, the marginal rate could rise significantly to over 40 percent.) Generally, this would make very little difference to taxpayers in the $200,000-and-over category, who would have essentially a flat rate of 27 percent on all taxable income. Such notches, however, do pose tax planning difficulties, and rate notches, in particular, are a disadvantage to marginal work and investment effort.

A smoother way of handling it would be to change the personal exemption to a credit at the same rate to all eligible taxpayers. With high marginal rates, the exemption is much more attractive to upper-income groups than a credit with the same overall revenue consequence. With the prospect of two basic rates and a much reduced top rate, the relative advantage/disadvantage of an exemption versus a credit is reduced, too. If the benefit of the 15 percent first bracket were kept for all taxpayers in combination with a low rate personal credit, the notch problems could be avoided. Admittedly, this could not yield exactly the same tax burden distribution as under the Senate bill, but it would be a lot cleaner.

Some other observations:

(1) ***Capital Gains.*** Undoubtedly, the biggest shock in the new package is the proposed ordinary income treatment of long-term capital gains—going directly against the grain of the 1978-81 legislation, which substantially strengthened the capital gains differential. Many tax reformers, of course, long had sought ordinary income treatment for capital gains on the grounds of both equity and simplification. To have it surface in the Finance Committee, however, must have been as much a surprise to those reformers as it was to proponents of a significant capital gains differential.

As to the impact on investment incentives, the jury could be out for a long time, possibly forever. If a top individual tax rate of 27 percent could be implemented and *maintained*, it could be argued that this would more than offset an increase in the effective rate on capital gains. For the Senate initiative, it is a very important *quid pro quo*, not so much in overall dollars, but in balancing the distribution of burdens among income classes and as a trademark for reform.

It is pointed out that the *potential* increase in tax on capital gains for some taxpayers is significantly more than the 7

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percentage point increase from the 20 percent maximum now to 27 percent under the Senate plan. Depending on their place in the rate structure and what their states do about income tax rates, some middle-income taxpayers could experience a capital gains tax hike of 15 or more percentage points.

Moreover, the Senate is proposing no corresponding change in the treatment of capital losses. Basic policy would say that if capital gains are taxable at ordinary income rates, all net capital losses should be allowed against income, too. But no, the Senate has bought the Treasury line that this would encourage too much hanky-panky in the timing of taking capital losses and erode the fisc.

Over the past decade or more, there has been much debate over the need for liberal treatment of capital gains to attract venture capital and risk investment generally. There seems to have been agreement that a capital gains differential has been important to offset high marginal rates of regular tax, at 50 percent or higher, facing the typical investor on such projects. The prospect of much lower top rates could neutralize some of the concern for a capital gains differential in this respect. ***Where productive assets are held over a long period, there would be more potential for erosion of the capital base by full taxation of gains, including the effect of general inflation. This would argue for a reexamination of the possibility of indexing the basis of capital assets, perhaps as proposed in Treasury I.*** If phased in, such indexing need not have such a significant effect on revenues over the next five years.

(2) ***IRA's.*** Almost as surprising as the capital gains proposal and causing even more commotion, was the Finance Committee provision to eliminate IRA deductions for those with regular pension coverage—again reversing one of the principal thrusts of the Economic Recovery Tax Act of 1981 (ERTA).

In a real sense, IRA's became victims of their own success. As of 1985, there were 17 million returns claiming IRA deductions, representing almost 20 percent of all returns eligible and $41 billion in deductions. The revenue cost of IRA's, according to the Treasury Department's "tax expenditure" budget, is said to be about $15 billion in fiscal 1986 and growing very rapidly. So when the Finance Committee was looking for big hits to offset the cost of their rate reductions, IRA's could hardly be missed. The estimated five-year tax savings under the Senate plan—which would still allow IRA deductions for nonparticipants in regular pension plans and, more importantly, continued deferral of tax on IRA earnings for all present eligibles—is estimated at $27 billion.

The IRA vehicle has been criticized as favoring upper-income taxpayers while not contributing to overall net savings. It's true that IRA utilization rises sharply with income. That's quite natural, because savings potential is concentrated in upper-income groups. But utilization has been significant in the middle-income group, too: over 20 percent of eligible tax returns have IRA's in the $20,000-$30,000 AGI group and over 30 percent in the $30,000-$40,000 AGI group.

(3) ***Tax Shelters and Itemized Deductions.*** Much comment has been made about the Finance Committee's bold move against tax shelters, particularly the proposed disallowance of "passive" losses against other income. There's little question that this provision would alter drastically the packaging of real estate and other investments, putting much more emphasis on potential economic returns as opposed to shelter opportunities. ***Also in conjunction with the proposed ordinary income treatment of capital gains, the shelter limitation would take a lot of pressure off the individual alternative minimum tax, reducing its bite and, indeed, sapping the very rationale for a stiff minimum tax, as capital gains and shelter losses have been a primary means to reduce upper-income tax liabilities.*** On these grounds, the Finance Committee move has garnered quite widespread support, including most tax policy observers. Transition problems could be quite intense, however, and there is legitimate question as to whether the proposed five-year phase-in of the disallowance is long enough for equitable treatment of investors in existing shelters.

Actually, in dollar terms, the shelter proposal does not appear to be so radical. Its estimated *net* revenue gain over five years is $19 billion, much lower than the initial estimate in early May. In contrast, the two major proposals to limit itemized deductions—the repeal of consumer interest and state/local sales tax deductions—together are said to raise far more, about $46 billion over five years. ***From a policy viewpoint, consumer or nonbusiness interest always has been a suspect itemized deduction. Heretofore, there has never been enough political support to counter the likely economic dislocation that ending the consumer interest deduction would engender. In the context of the lower rate quid pro quo, opposition to ending the consumer interest deduction has softened even among some large producers of consumer durables who traditionally depend on consumer finance arrangements to move their products.***

Such does not extend, however, to mortgage interest, which under the Senate bill would remain fully deductible for both primary and other residences. No matter how sophisticated the enforcement technique, there is no way the IRS would be able to contain leakage of deductible mortgage interest to finance consumer purchases. And this could produce some significant compliance controversy in the future.

Reaction to the Finance Committee proposal to end deduction of state/local sales taxes was muted, relative, at least, to the furor in the House over the Administration's original suggestion to repeal all state/local tax deductions. This column has never viewed the case for repealing state/local tax deductibility as compelling or particularly well grounded. It must be admitted that on both political and policy grounds, the sales tax deduction is more vulnerable than income or property tax deductions. Clearly, there is a larger element of consumer choice and smaller element of business expense with sales taxes compared to income taxes.

Is it appropriate for the Federal government to influence the states' choice of fiscal resources? Ending or greatly diminishing the sales tax deduction alone would seem to encourage the states to rely more on income/property taxes.* To the extent they do, of course, the potential revenue gain to the U.S. Treasury—plugged in at $17.5 billion over five years—would be diminished. Just one of the innumerable cases of

*The Senate did accept an amendment to the Finance Committee bill that in effect would preserve 60 percent of the sales tax deduction for taxpayers in the few states with sales but no income taxes. This increases the likelihood of a conference move to preserve the entire sales tax deduction.

possible reactions to policy change that cast doubt on the static revenue estimates.

Tax Burden Distribution and Base Broadening

As with the House bill, the basic distribution of tax burdens under the Senate plan is not significantly different from the present level. This has been a guiding principle right along since Treasury I. The Senate version is slightly less generous in overall individual reductions than the House because of the somewhat smaller hit on the business sector to finance them. Some are criticizing the Senate bill for being more niggardly toward the broad middle-income classes of $30,000-$75,000 than the House version, and, inevitably, all sorts of examples have been raised of middle-income people who would pay higher taxes under the Senate bill than under present law, because of their particular circumstances and use of present provisions.

It should be noted that even with sharp cuts in top rates under the Senate bill, progression of the individual structure actually could edge up—that is, upper-income taxpayers could end up paying a higher share of total individual income tax receipts. Such a trend has been in evidence for the past several years, as reported by the Tax Foundation's special analysis of shares paid by high- and low-income taxpayers. (See *Tax Features* story on page 1.) One rationale is that as rates were cut in 1978-81, taxpayer response has been to increase attention to taxable activities—earned income and taxable investments—as opposed to tax shelter or leisure alternatives.* The same could apply to a greater extent under the new legislation.

Table I below shows the average tax liability and rate under present law and under both House and Senate measures. Unfortunately, the figures in the Committee reports are not really comparable. The Senate report uses 1988 income levels based on 1986 dollars, while the House uses 1977 income levels in current dollars. This gives the misleading impression of somewhat lower average taxes and tax rates for income classes under the Senate version. But the essential preservation of the present burden distribution is apparent, anyway.

Gross base broadening of the individual income tax structure is quite extensive under the Senate bill. Table II indicates the estimated revenue pickups by major provision over the five-year period fiscal 1987 through 1991, cumulating to $260 billion for all provisions affecting individuals. This compares with an estimated $193 billion under the House bill for the five fiscal years 1986 through 1990. In each case, of course, rate reductions, personal exemption increases, and other adjustments would more than wipe out these revenue gains resulting in substantial net tax reductions for individuals, more so with the House version than the Senate. In fact, it is only if you look on the personal exemption and standard deduction as "basic allowances" and part of the normal tax structure, that the base broadening "reforms" assume such a large dollar proportion. Raising the personal exemption, the standard deduction and earned income credit obviously will erode the tax base, however, almost to the extent that other reforms widen it. Under the Senate measure, the net base broadening—that is, the revenue gains from reforms *less* the increases in the basic allowances—is only $76 billion for individuals over the fiscal 1987-1991 period. This pattern is likely to hold in conference.

I. Average Income Tax Liability and Tax Rate, Present Law and Proposed Legislation[1], by Income Class

Income Class ($000)	Tax Liability: Present Law 1987 Income Level	Tax Liability: House Bill 1987 Income Level	Tax Liability: Senate Bill 1986 $ 1988 Income Level	Average Tax Rate: Present Law 1987 Income Level	Average Tax Rate: House Bill 1987 Income Level	Average Tax Rate: Senate Bill 1986 $ 1988 Income Level
0-10	$ 68	$ 16	$ 13	1.4	0.3	0.3
10-20	886	678	617	5.8	4.4	4.2
20-30	2,168	1,954	1,766	8.3	7.5	7.0
30-40	3,346	3,045	2,802	9.3	8.5	8.1
40-50	5,100	4,658	4,184	11.0	10.1	9.4
50-75	8,166	7,563	7,289	13.2	12.2	12.2
75-100	14,223	13,407	12,951	16.0	15.1	15.2
100-200	28,245	26,196	24,405	19.8	18.4	18.2
Over 200	136,714	128,711	118,306	23.5	22.1	21.2
All	$ 3,210	$ 2,919	$ 3,132	11.3	10.5	10.6

[1] Some provisions not distributed by income class.
Sources: "The President's Tax Proposals for Fairness, Simplicity and Economic Growth," May 1985; Ways and Means Committee Report on H.R. 3838, Dec. 7, 1985; Senate Finance Committee Report on H.R. 3838, May 29, 1986.

II. Base Broadening of Individual Income Tax Structure Under Senate Tax Reform Bill[1] FY 1987-1991

Provision	Revenue Impact $bils.
Tax shelter and interest expense deduction limits	62.2
Retirement income and employee benefits provisions	35.7
Depreciation changes and ITC repeal (individual only)	26.6
Second-earner deduction repeal	26.2
Limitations on employee business expense deductions and miscellaneous itemized deductions	22.9
Sales tax deduction repeal	17.5
Medical expense floor increase	9.6
Income averaging repeal	8.8
Alternative minimum tax	6.5
Limitations on business meal, travel, and entertainment expense deductions	5.1
Trusts and estates provisions	4.5
Accounting provisions (individual only)	3.7
Taxation of all unemployment compensation	3.2
Dividend exclusion repeal	2.9
	235.4
All other individual revenue raising	24.7
Total individual revenue raising	260.1
Rate reductions[2]	-175.8
Personal exemption and standard deduction increase and other adjustments	-184.3
Net effect on individuals	-100.00

[1] Before any Senate floor amendments.
[2] Includes effect of change in treatment of capital gains
Source: Senate Finance Committee Report on H.R. 3838, May 29, 1986.

Business Provisions

Despite the still very significant shift in tax burdens from individuals to the corporate sector under the bill, most busi-

*The statistics on higher tax payments and higher shares paid by the top income groups suggest that this taxpayer response has occurred in spite of the more publicized expansion of tax shelter activities, particularly in the real estate area, following some provisions of ERTA.

ness groups found themselves supporting the Senate measure, some quite actively. Others viewed it simply as the lesser of the evils compared to the House version.

From a business viewpoint, the Senate measure clearly is preferable in the capital recovery area. In fact, in some respects the Senate's modified Accelerated Capital Recovery System (ACRS) offers more generous depreciation than present law—with the most notable exception of real estate. Proposed repeal of the investment tax credit, however, continues to pose a large negative for capital investment objectives. The relatively harsh transition rules for most businesses and partial loss of carryovers are serious problems, too. Accounting changes and capitalization requirements under the Senate measure suggest new burdens comparable to the House bill. In the pension area, the Senate would make much more extensive changes than the House, some of which could involve substantial employer costs—vesting and coverage requirements, in particular. And there is the specter of the corporate alternative minimum tax, estimated to raise $33 billion or a third of the net corporate income tax increase under the bill, and to introduce the major uncertainty of a book income tax base into the system (see *Federal Tax Policy Memo*, May 1986).

The extent of gross tax base broadening under the corporate provisions is almost as great as in the individual sector as shown below in Table III:

III. Base Broadening of Corporate Income Tax Structure Under Senate Tax Reform Bill Fiscal Years 1987-1991

Provision	Revenue Impact $bils.
ITC repeal	130.9
Accounting provisions	50.0
Alternative minimum tax	33.3
Insurance provisions	6.0
Foreign tax provisions	4.3
	224.5
All other corporate revenue raising	30.5
Total corporate revenue raising	255.0
Rate reductions	-128.0
Other adjustments	-26.6
Net effect on corporations	100.4

Source: Senate Finance Committee Report on H.R. 3838, May 29, 1986.

As indicated, the proposed corporate rate reduction to 33 percent with lower graduated rates below $75,000 of taxable income would offset about half of the base broadening, with other adjustments leaving the net increase on the corporate sector over five years at $100 billion. The rate reduction obviously is critical for business support of the Senate bill, and any backtracking here to pay for individual tax provisions would not only erode business support but cast more doubt on the already uncertain economic impact of the reform movement.

One question that really has not been raised is the implication of a lower maximum individual rate, basically 27 percent, than the corporate rate at 33 percent. In years past, Treasury always worried about corporate rates significantly lower than the top individual rates and the resulting spur to set up closely held and professional corporations to avoid the high individual rates. Little consideration has been given to the reverse situation.

It's difficult to contemplate any real movement among middle-size and large businesses to "disincorporate" on the basis of a potential 6 percentage point differential between top corporate and individual rates. But it could be of real significance for those at the margin of decision whether to operate in partnership, proprietorship, or particularly in Subchapter S form, as opposed to regular incorporation. It also may bring into sharper focus the existing double taxation of corporate income, once at the corporate level and again at the shareholder level—something the Senate bill does not address at all. The House measure at least made a gesture toward reducing the discrimination against the corporate form, but it's apparent that broad support for any particular form of dividend tax relief is still lacking.

Outlook

Tax reform 1986-style would have some very identifiable long-term consequences. ***One would be a bonanza for the states with income taxes, particularly the majority tied to the Federal base but not to the Federal personal exemption level. The extent of gross base broadening, both individual and corporate, is so significant that many states will feel extreme pressure to reduce their own income tax rates and increase exemption levels.*** But not necessarily in a revenue neutral mode. Some will want to use part of the gravy for increased funding of state/local expenditure programs, which, incidentally, would accord with the President's view on Federalism and the campaign to pinch back Federal grants and domestic programs. Obviously, it would be a lot easier for the states to do this when the Federal government, in effect, is handing over increased tax capacity.

For Federal fiscal policy, tax reform still would leave a lot of unanswered questions. There is no assurance that over time paper revenue neutrality will hold. A good argument can be made that, with extensive changes in taxpayer behavior, a significant part of the broadened base will erode. On the other side, it could be argued that the lower rates and presumably better "horizontal" tax burden distribution—more people in each income group paying more equal amounts of tax—will lead to significant compliance improvement. It can be argued, in fact, that there has not been a real test of this approach to compliance until now. These factors may offset each other.

What if, with continuing budget deficits, Congress decides to raise net revenues after all, as many assume it will do, at least for fiscal 1988 and afterwards? The tax reformers will say that with a more equitable base, income tax rates can be raised more easily. We would not bet on that. More likely, the big reform of 1986 will be viewed by the public as a* commitment *to lower rates, not an experiment subject to whims of fiscal policy, and that any move to undo this commitment, at least in the next three or four years, will not be tolerated. In broad policy terms then, this may well be, in Horace Busby's words, "the last dance with the income tax." We are not suggesting for a moment that there will not be further income tax changes, starting with yet another technical corrections bill. But, for future revenue requirements of any real size, we may at last have to turn to a broad-based Federal consumption tax—inevitably, the subject of much continuing debate in the future.

(SPENDING DOUBLES, from page 1)

spending until the mid-1930s. World War II developments catapulted that share to over 90 percent during the peak spending years.

States and localities will spend $628 billion this year from the funds they raise. (Expenditures from Federal grants-in-aid to these units are counted in the Federal total.) This will represent an increase of about $59 billion over the previous fiscal year, as compared to the rise in Federal outlays that is estimated at $36 billion.

Measured on a somewhat different basis (within the framework of the national income and product accounts), government spending since 1950 has grown far more rapidly than the economy at large. In calendar year 1950 government spending was equal to 21.3 percent of gross national product (GNP). It grew to 26.6 percent of GNP in 1960, to 31.3 percent in 1970, to 32.6 percent in 1980, and now stands at about 35 percent of GNP, according to Tax Foundation estimates.

The second table on page 4 provides further details.

(Continued on page 4)

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"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by States, FY85," May 1986, $5.00 (includes postage and handling), 10 p.

(TAX BURDENS, from page 1)

crease of 31.9 percent from 1979.

During the same five-year period there was a sharp increase in the number of persons with adjusted gross incomes of $1,000,000 or more. There were 16,662 taxpayers in this top group in 1984, up nearly five times from 3,601 in 1979. They paid an average 1984 tax of $910,294 (almost 50 percent of taxable income).

The table on page 1 provides details.

THE FRONT BURNER

By Robert C. Brown, President
Tax Foundation

"Bottom-Line Tax Policy"

A new style of tax legislation has surfaced in recent years—bottom-line tax policy. Sound principles of public finance don't matter so much. What counts is how close the tax writers can come to a predetermined bottom-line revenue target. These shenanigans started with TEFRA in 1982. They lurk in the bill now in the Senate/House Conference Committee.

There will undoubtedly be much to praise in what emerges as the final bill. However, the tax reform act of 1986 will not be an unmitigated boon. The bill harbors many unforeseen negative effects that will have to be dealt with in later years.

One item—treatment of retirement benefits for those in contributory pension plans—will have much more immediate consequences. Current law allows those who retire with such pensions to draw, tax-free, benefits for up to three years until the money they have paid into their pension funds and on which they have already paid taxes is fully drawn down. The new law would prorate the drawdown over the estimated actuarial life of the pensioner.

What's the big deal? Well, in the long run, the change affects some 20 million U.S. workers—mostly Federal, state, and local government employees, but many private-sector employees, too. In the short run, it directly impacts between 250,000 and 300,000 Federal employees who are eligible to retire now. In effect, it delays recovery of contributions which have already been taxed. It also knocks into a cocked hat financial planning these employees have done for their retirement. All in the cause of plugging some $5 billion in revenue into the tax bill.

Good. It will weed out the bureaucratic deadbeats and make room for younger, more energetic workers. Wrong. It could drive out the most experienced, most senior career civil servants from just about every government agency who will want to retire before the deadline for the new treatment. Officials at the IRS, NASA, FBI, and CIA, to mention just a few, predict a mass exodus that may seriously curtail their mission. All in the name of $5 billion.

Given the momentum behind the freight-train of "tax reform" in an election year, we realize that decrying this injustice is accepting the role of "a voice crying in the wilderness." Nonetheless, some things have to be condemned just because they're wrong. This is one. We're glad we spoke up.

(PUBLIC SPENDING, from page 2)

During the 1960s and 1970s, the social welfare programs saw a major increase in the proportion of spending being devoted to them, rising from 20.6 cents per dollar of spending in 1960 to 33.6 cents in 1980. By contrast, national defense and international relations spending fell to only 15.6 cents per dollar in 1980 from the 1960 level of 32.3 cents. Although data for the early 1980s show a modest (1.8 cents-per-dollar) increase in the spending share for defense, this outlay category pales by comparison with growth in social spending for the last quarter century. Spending on social programs in 1984 came to 15 times what it had been in 1960, whereas all other programs combined, including defense, increased by just 8 times over the same period.

Another notable recent trend has been a relative decline in education spending, which rose to 16.7 cents per dollar of spending in 1970, but by 1984 had fallen back almost to its 1960 level (13.2 cents in 1984 compared to 12.8 cents in 1960).

Interest payments on government debt consumed 9.7 cents per dollar spent in 1984, compared to a smaller 7.9 cent bite in 1980 and 6.2 cents in 1960. Debt-related outlays have been the fastest growing cost to government in recent years.

The four largest spending categories—major social programs, defense and international relations, education, and interest—accounted for more than $1 trillion, or 73.2 cents of every dollar of Federal, state, and local expenditure in 1984.

The table at the top of this page provides further details.

How Federal, State, and Local Governments Spend Each Dollar of Public Funds

Selected Fiscal Years 1960-1984

Function	Cents per dollar of total spending			
	1960	1970	1980	1984
Major social welfare programs, total	20.6	25.8	33.6	32.9
Social security (OASDHI)	7.1	10.8	15.6	16.4
Social services and income maintenance[a]	8.5	10.7	13.0	11.8
Government employee retirement	1.4	1.9	3.0	3.1
Veterans (not elsewhere classified)	2.5	1.6	1.3	1.2
Railroad retirement	.6	.5	.5	.4
National defense and international relations	32.3	25.3	15.6	17.4
Education	12.8	16.7	15.0	13.2
Interest on general debt	6.2	5.5	7.9	9.7
Environment and housing	5.4	4.4	4.9	5.8
Utilities and liquor stores	3.4	2.8	3.8	3.9
Transportation	7.6	6.2	4.4	3.5
Public Safety	1.8	2.0	2.3	2.3
Government administration	1.8	1.9	2.2	2.1
Postal service (Federal)	2.5	2.3	1.9	1.9
Sanitation	1.1	1.0	1.4	1.1
All other	4.5	6.1	7.0	6.2
Exhibit (billions):				
Total spending	$151.3	$333.0	$958.7	$1,428.0

[a] Includes public welfare, hospitals, health, and unemployment insurance benefits.
Source: Department of Commerce, Bureau of the Census; and Tax Foundation computations.

(SPENDING DOUBLES, from page 3)

Federal, State, and Local Government Expenditures[a]

Selected Fiscal Years 1950-1986

Fiscal year	Amount (billions)			Total expenditures	
	All governments	Federal	State and local	Per household	Per capita
1950	$ 70.3	$ 44.8	$ 25.5	$ 1,614	$ 466
1960	151.3	97.3	54.0	2,866	847
1965	205.7	130.1	75.6	3,581	1,067
1970	333.0	208.2	124.8	5,252	1,643
1975	560.1	340.5	219.6	7,875	2,612
1980	958.6	615.4	343.2	11,867	4,243
1981	1,109.8	717.4	392.4	13,474	4,857
1982	1,233.5	794.7	438.8	14,768	5,345
1983	1,351.0	872.5	478.5	16,099	5,798
1984	1,428.0	926.5	501.6	16,720	6,056
1985[b]	1,590.3	1,021.1	569.2	18,324	6,682
1986[b]	1,685.7	1,057.3	628.4	19,145	7,017

[a] Grants-in-aid are counted as expenditures of the first disbursing unit.
[b] Estimated by Tax Foundation.
Source: Basic data from U.S. Department of Commerce, Bureau of the Census; computations by Tax Foundation.

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One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005

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TAX FOUNDATION'S VOL. 30, NO. 7 AUGUST 1986

TAX·FEATURES

U.S. Family's Purchasing Power Climbs for Fifth Year in a Row

The U.S. family's purchasing power has increased for five consecutive years, thanks to the Economic Recovery Tax Act of 1981 and a slowing in the rate of inflation, according to Tax Foundation researchers. Even so, the prototypical family—one earner, employed full-time, year-round, married, with two dependent children—has $986 less purchasing power today than ten years ago, say economists at the Washington-based tax watchdog organization.

Measured in constant 1986 dollars, the family's real income after direct Federal taxes has gone up by $2,186 or 10 percent in the last five years. But during the previous five years, the family's purchasing power actually declined by $3,172 in 1986 dollars.

During 1976-81, inflation and rising Federal taxes slashed 13 percent from the buying power of this prototypical family. During these years, increases in Federal income and social security taxes for this family averaged just over 10 percent annually, and inflation also was climbing at a rate of almost 10 percent. For the same period, this worker's pretax nominal income was rising by 7 percent annually.

In contrast, since 1981, this family's Federal direct taxes have risen by 6 percent annually, and consumer

(Continued on page 3)

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Family's Purchasing Power
OECD Taxes

PAGE 2:
Public Payrolls

PAGE 3:
Budget Update

Median Family Incomes Before and After Direct Federal Taxes and Inflation 1976 - 1986

Year	Median family income[a]	Direct Federal taxes: Income tax[b]	Direct Federal taxes: Social security	Direct Federal taxes: Total	After-tax income: Current dollars	After-tax income: 1986 dollars[c]
1976	$15,016	$1,388	$ 878	$2,266	$12,750	$24,709
1977	15,949	1,466	933	2,399	13,550	24,636
1978	17,318	1,717	1,048	2,765	14,553	24,583
1979	19,048	1,881	1,168	3,049	15,999	24,315
1980	20,586	2,143	1,262	3,405	17,181	23,000
1981	21,462	2,267	1,427	3,694	17,768	21,537
1982	23,036	2,342	1,543	3,885	19,151	21,887
1983	23,943	2,277	1,604	3,881	20,062	22,217
1984	25,415	2,395	1,703	4,098	21,317	22,630
1985[d]	26,940	2,575	1,899	4,474	22,466	23,042
1986[d]	28,556	2,791	2,042	4,833	23,723	23,723

[a]Median income for all families with one earner employed full-time, year-round.
[b]Married couple filing joint return, two dependent children.
[c]Adjusted by Consumer Price Index of the Bureau of Labor Statistics. Assumes 2.5% inflation in 1986.
[d]Estimated by Tax Foundation.
Source: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Treasury Department, Internal Revenue Service.

OECD Nations Use Variety of Approaches to Taxation

Despite numerous economic and political ties, member nations of the Organization for Economic Cooperation and Development (OECD) display great disparity in how they structure their respective tax systems.

In 1983 (latest reported), the share of revenue raised by individual and corporate income taxes ranged from less than 20 percent in France and Greece to 66 percent in New Zealand, 55 percent in Turkey and Denmark, and 53 percent in Australia. Nations which collect either a very small part of their revenues from social security taxes or none at all tend to derive a large share of their revenues from taxes on income.

Income taxes furnish about 39 percent of tax revenues in the 23 OECD countries combined. The U.S. share—43 percent—ranks ninth highest.

France and Greece raised the least through individual income taxes—both at 13 percent in 1983. By contrast, New Zealand derived 60 percent of its tax collections from this source. Denmark also raised more than half of its revenues from individual income taxes. The United States, ranked seventh among the member countries, raised 37 percent of all revenues through the personal income tax.

Corporate profits tax levies also generate significant public revenue for most of the member countries. Japan raised nearly one-fifth of its 1983 receipts by taxing corporate incomes, ranking highest among the OECD nations. Six percent of total tax receipts were derived from corporate income taxes in the United States in 1983, close to the OECD average of 7 percent. At the low end, Denmark raised just under 3 percent of its revenue by taxing corporate income.

Taxes on goods and services (sales or consumption levies) are second to income taxes as revenue-raisers in the OECD countries. They provide an average of 30 percent of tax revenues. Governments in the United States raise just 18 percent of total receipts from such taxes, placing the U.S. 22nd among the 23 OECD members in terms of reliance on consumption taxes. France, Germany, and the United Kingdom all collected in the range of 25 to 30 percent of total tax receipts from consumption taxes.

Social security levies follow income and consumption taxes as the third largest revenue source for OECD countries, providing about 24 percent of all tax re-

(Continued on page 4)

43 States + DC Report Increases In Public Jobs

After a period of slowing in the early 1980s, state and local employment moved up by 2.4 percent in October 1984 (latest reported) to a level of more than 11.1 million. That represented an increase of 258,000 (full-time equivalent) employees over October 1983 levels. Higher employment was reported in 43 states and the District of Columbia.

The 1984 job gain followed a modest rise (0.5 percent) in 1983, and slight reductions in the two previous years. The declines in 1981 and 1982 marked the first reductions in state-local employment since World War II.

More than 60 percent of the 1984 increase was in the field of public education, where 158,000 employees were added. This 3.0 percent increase was the largest in over a decade. As of October 1984, there were 5.4 million public employees in the field of education, about 48 percent of all state-local workers.

Monthly payroll costs for state-local governments reached $19.8 billion in October 1984, up $1.6 billion or 8.5 percent from 1983. Average employee pay increased by $100 a month, or 6 percent for the year.

From 1974 to 1984, state-local employment grew by a modest 13 percent, about 1 percent a year on average. This was in sharp contrast to the nearly 50 percent rise experienced from 1964 to 1974. The differential growth rate reflects shifting trends in the employment of public elementary and secondary schools. From 1964 to 1974 employees in this sector increased by 1.2 million (46 percent); from 1974 to 1984 the increase was 287,000. This 7 percent rise in school employees in the last decade coincided with a drop of 6 million school enrollees (14 percent), according to Tax Foundation analysts.

The number of jobs in state governments grew by about 20 percent from 1974 to 1984, generally paralleling the increase in private sector employment. Local non-school jobs grew by 13 percent. During the same period the nation's population grew by about 12 percent. At latest count, there were 472 state-local employees for every 10,000 members of the population at large, up from 467 ten years earlier.

The average monthly earnings of public employees approximately doubled during the decade. For the month of October 1984, state and local governments nationwide paid employees an average of $1,774, up from $893 in 1974.

The accompanying table provides a state-by-state breakdown of state and local government employment and payrolls for the month of October, 1984 and 1974.

State and Local Government Employment[a] and Payrolls Month of October, 1974 and 1984

State	Employees[a] Number (000) 1974	1984	Percent change	October payroll Amount (millions) 1974	1984	Percent change	Payroll per employee[a] 1974	1984	Percent change
TOTAL	9,852	11,143	13	$8,792	$19,767	125	$892	$1,774	99
Alabama	157	192	22	110	282	157	698	1,471	111
Alaska	25	40	60	31	117	277	1,266	2,957	134
Arizona	104	140	35	99	264	168	950	1,892	99
Arkansas	85	106	25	53	138	161	628	1,305	108
California	1,017	1,146	13	1,135	2,581	127	1,116	2,251	102
Colorado	129	153	19	110	285	159	855	1,859	117
Connecticut	127	139	9	122	265	117	959	1,905	99
Delaware	33	31	-6	25	52	108	763	1,684	121
Florida	389	488	25	328	798	143	843	1,634	94
Georgia	246	307	25	173	431	149	704	1,406	100
Hawaii	39	49	26	40	87	116	1,037	1,764	70
Idaho	40	46	15	29	70	145	718	1,530	113
Illinois	479	490	2	483	923	91	1,009	1,885	87
Indiana	219	242	11	168	385	129	767	1,591	108
Iowa	132	144	9	108	241	123	818	1,692	106
Kansas	114	128	12	83	201	141	731	1,572	115
Kentucky	137	158	15	95	231	142	696	1,459	110
Louisiana	185	235	27	125	344	175	677	1,461	116
Maine	46	52	13	34	76	126	726	1,457	101
Maryland	196	214	9	182	396	117	928	1,857	100
Massachusetts	264	256	-3	245	456	86	927	1,776	92
Michigan	430	405	-6	465	835	80	1,081	2,063	91
Minnesota	184	192	4	174	380	118	945	1,982	110
Mississippi	109	135	24	67	161	141	615	1,193	94
Missouri	205	219	7	159	335	111	776	1,526	97
Montana	39	44	13	31	75	142	796	1,704	114
Nebraska	85	91	7	64	138	117	752	1,526	103
Nevada	30	44	47	29	81	180	954	1,855	95
New Hampshire	35	42	20	26	62	136	757	1,468	94
New Jersey	319	361	13	315	674	114	985	1,870	90
New Mexico	61	80	31	44	126	186	727	1,585	118
New York	1,003	998	(b)	1,068	2,048	92	1,065	2,052	93
North Carolina	230	302	31	177	448	154	768	1,487	94
North Dakota	29	36	24	22	61	182	740	1,712	131
Ohio	431	463	7	369	783	112	857	1,691	97
Oklahoma	128	168	31	86	242	180	674	1,447	113
Oregon	116	130	12	104	233	124	895	1,794	101
Pennsylvania	466	453	-3	417	787	89	895	1,736	94
Rhode Island	41	45	10	37	84	129	891	1,878	111
South Carolina	132	164	24	89	229	158	673	1,399	108
South Dakota	31	35	6	23	49	111	701	1,396	99
Tennessee	193	217	12	135	315	134	698	1,452	108
Texas	547	781	43	407	1,272	213	743	1,628	119
Utah	59	74	25	44	123	178	751	1,654	120
Vermont	23	25	9	18	38	106	783	1,528	95
Virginia	238	277	16	186	444	138	783	1,601	105
Washington	175	205	17	168	396	136	961	1,935	101
West Virginia	82	95	16	55	135	145	675	1,418	110
Wisconsin	207	225	9	189	414	118	913	1,835	101
Wyoming	22	35	59	17	62	270	754	1,804	139
District of Columbia	55	48	-13	58	110	91	1,046	2,325	122

[a]Full-time equivalent employees.
[b]Less than .5%.
Source: U.S. Department of Commerce, Bureau of the Census, and Tax Foundation computations.

Tax Features

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Tax Foundation
One Thomas Circle, N.W., Suite 500
Washington, D.C. 20005
(202) 822-9050

(U.S. FAMILY, from page 1)

prices have gone up by just under 4 percent a year. The family's nominal income has increased an average of almost 6 percent annually. This means that after-tax, inflation-adjusted income for the family has risen at the rate of almost 2 percent a year since 1981, according to Foundation analysts. While social security tax growth still outpaces gains in the paycheck, the hold on inflation and income taxes is working in the family's favor.

From 1976 to 1986, while pre-tax income almost doubled, direct Federal taxes were climbing by 113 percent, from $2,266 to $4,833. Income tax liabilities went from $1,388 to $2,791, an increase of 101 percent. Social security taxes jumped from $878 to $2,042, or 133 percent. Increased revenues were needed to pay for higher benefits as a result of indexing benefits to the Consumer Price Index (CPI) and increases in the number of beneficiaries.

While the rise in direct Federal taxes reduced the family's nominal dollar income by $2,567, its gain, before taking inflation into account, was still $10,973, or 86 percent for the decade, Tax Foundation economists note. As a proportion of the family's income, direct Federal taxes ranged from a low of 15.0 percent in 1977 to a high of 17.2 percent in 1981.

For the period 1976 to 1986, the price level, as measured by the CPI, almost doubled, making each 1976 dollar worth only 52 cents in 1986. The combination of rising prices and a rising tax bite reduced the purchasing power of the family by almost 4 percent for the entire decade.

The table on page 1 provides additional details.

Tax Foundation's statistical handbook, ***Facts and Figures on Government Finance,*** 1986 edition, is now available. Purchase price is $75.00 ($65.00 members of Tax Foundation).

MARK YOUR CALENDAR

Tax Foundation's **38th National Conference** and **49th Annual Dinner** will be held this year on **Wednesday, December 3, 1986,** at the **Waldorf-Astoria Hotel** in New York City. Details will be announced in future issues of *Tax Features.*

THE FRONT BURNER

By Robert C. Brown, President Tax Foundation

"Budget Update"

"Everybody wants to dance with Rosy Scenario, because she's the best on the floor." That's what a top House Budget Committee staffer told a group of policy analysts a few weeks ago. The problem is that, sooner or later, fickle Rosy always leaves the dance with somebody else.

Tax Foundation's Shadow Committee on the Federal Budget has just released its latest look at the state of the budget. The news is anything but rosy:

- The economy remains weak, despite lower interest rates, a declining dollar, and low inflation. Short-term prospects are little or no better.
- The Supreme Court has knocked out the autopilot of the Gramm-Rudman-Hollings deficit reduction procedure. Congress must now deal with the pain of actually voting cuts.
- The White House and the Congress continue to favor budget cosmetics over substantive deficit reduction action. "It could be that taking credit for savings has become a substitute for making them," the Shadow Budget Committee lamented.
- The tax "reform" program now in the congressional conference will make it even more difficult to take any tax action in the name of deficit reduction.

What does this mean for public policy and for the fiscal health of the U.S.?

"You can't get there from here," as they say "down Maine." And we won't get there—"there" being a healthy Federal budget situation—unless we take certain steps:

1. Ban Rosy from the dance hall. Let Congress and the White House agree to take the optimistic excesses out of budget making. They serve no one—politically or fiscally.
2. Avoid the budgetary legerdemain of bookkeeping ploys, imaginary baselines, faulty cost estimates and other gimmicks that have brought us to the point, as the Committee report says, where "nobody can calculate authoritatively what has been accomplished by way of genuine deficit reduction."
3. Recognize that budgetary shenanigans are the major roadblock in the way of devising creative new solutions as this nation moves inexorably toward the twenty-first century. Until we can stop throwing away money on outmoded policies, we cannot free today's and tomorrow's creative thinkers to put in place efforts that address today's—and tomorrow's—needs.

The real tragedy about the budget mess is that it is a millstone around the neck of a country that is now ten years into its third century. It's time our elected leaders recognized that, and did something about it.

TAX FOUNDATION

(OECD COUNTRIES, from page 1)

ceipts. Variations from country to country are significant, however. Australia and New Zealand do not levy social security taxes. Denmark gets less than 4 percent of its revenue from such taxes. By contrast, social security taxes accounted for more than 40 percent of total tax revenues in France, Spain, and the Netherlands. The United States ranked in the middle range, 11th among OECD countries, getting 29 percent of its taxes from social security collections.

Property taxes generally are not a major source of tax revenue among OECD nations, providing 5 percent of total taxes on average. In 1983, the United Kingdom ranked first in its reliance on property taxes (13 percent of total), followed by the United States (11 percent) and Japan (9 percent).

Another way to compare tax systems among the major industrialized countries is to examine the size of their tax receipts in relation to economic production. The OECD measures this by gross domestic product, or GDP.

By this measure, Sweden is the "most taxing" nation, with receipts coming to just over 50 percent of GDP in 1983. The Netherlands ranks second at 47 percent. U.S. taxes in 1983 came to 29 percent of GDP, placing this country 20th among its OECD affiliates. Japan's taxes came to 28 percent of GDP. Other countries at the low end were Spain and Turkey, where taxes amounted to 27 and 19 percent of GDP, respectively.

The table below provides further details for the distribution of tax revenues in selected countries for FY83.

Distribution of Tax Revenues In Selected Countries by Source

(Percent of total taxes from each source)

Fiscal Year 1983

Country	Taxes on income and profits[a]		Social security taxes	Taxes on goods and services			Property taxes[c]	Other and unallocable[d]
	Individual income	Corporate profits		Total[b]	Consumption taxes: General	Consumption taxes: Specific		
Australia	43.94	8.77	—	33.04	7.41	20.84	8.42	5.83
Austria	22.96	2.86	31.78	32.16	20.78	10.38	2.78	7.46
Belgium	34.96	5.97	30.69	26.35	16.71	7.99	1.81	.22
Canada	35.58	7.46	13.14	32.67	11.64	14.41	9.12	2.03
Denmark	52.01	2.98	3.86	35.78	21.10	13.34	5.24	1.1
Finland	45.17	4.42	7.77	39.91	19.77	19.68	2.53	.20
France	13.41	4.29	43.89	28.96	20.51	7.70	3.73	5.72
Germany	28.26	5.14	35.69	27.52	16.99	9.37	3.38	.01
Greece	13.08	2.46	35.47	43.31	15.05	21.60	3.32	2.36
Ireland	29.47	3.79	14.91	46.05	21.07	23.30	3.84	1.94
Italy	27.91	9.34	35.87	23.40	14.92	9.86	2.83	.65
Japan	25.57	19.62	29.95	15.20	—	13.15	9.39	.27
Luxembourg	27.24	17.33	25.04	23.71	12.08	11.05	6.10	.58
Netherlands	21.34	6.09	45.00	24.12	14.79	7.15	3.18	.27
New Zealand	59.93	6.28	—	25.79	11.79	12.77	7.61	.39
Norway	25.29	14.59	21.70	36.02	18.21	16.59	1.76	.64
Portugal	(e)	(e)	25.95	43.85	14.14	27.92	1.77	28.43[e]
Spain	21.14	4.92	44.98	23.96	12.28	11.67	3.76	1.24
Sweden	38.91	3.41	26.93	24.44	13.55	9.72	1.66	4.65
Switzerland	35.61	6.01	31.23	19.37	9.33	8.54	7.77	.01
Turkey	44.46	10.87	5.32	32.97	—	32.55	5.62	.76
United Kingdom	27.70	10.84	17.66	29.75	13.86	14.16	12.66	1.39
United States	37.12	5.52	28.71	18.02	7.00	8.56	10.62	—

[a]Includes taxes on capital gains.
[b]Includes import duties, profits of public fiscal monopolies, licenses, and other business taxes.
[c]Includes taxes on movable and immovable property, net wealth taxes, and estate and gift taxes.
[d]Includes general and selective taxes on payrolls which are not earmarked for social security purposes, and other taxes not elsewhere classified.
[e]Taxes on income and profits amount to 24.69% of total taxes, but are included under "other and unallocable," as they are not segregable between individuals and corporations.
Source: Organization for Economic Cooperation and Development.

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One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005

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